

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
August 1, 2007 Through June 30, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
August 1, 2007 Through June 30, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Magoffin County Sheriff for the period August 1, 2007 through June 30, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,857,237 for the districts for 2007 taxes, retaining commissions of \$119,312 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,735,495 to the districts for 2007 taxes. Taxes of \$22 are due to the districts from the Sheriff and refunds of \$389 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Collect \$359 Of Receivables And Pay \$15,368 Of Liabilities For The 2003 And 2004 Tax Settlements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Charles E. Hardin, Magoffin County Judge/Executive

Honorable Randall Jordan, Magoffin County Sheriff

Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the Magoffin County Sheriff's Settlement - 2007 Taxes for the period August 1, 2007 through June 30, 2008. This tax settlement is the responsibility of the Magoffin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Magoffin County Sheriff's taxes charged, credited, and paid for the period August 1, 2007 through June 30, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Charles E. Hardin, Magoffin County Judge/Executive

Honorable Randall Jordan, Magoffin County Sheriff

Members of the Magoffin County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Collect \$359 Of Receivables And Pay \$15,368 Of Liabilities For The 2003 And 2004 Tax Settlements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

November 6, 2008

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period August 1, 2007 Through June 30, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 488,119	\$ 319,623	\$ 691,357	\$ 215,398
Tangible Personal Property	183,904	79,485	164,851	168,403
Fire Protection	2,965			
Increases Through Exonerations	1		1	1
Franchise Taxes	175,816	77,551	161,538	
Additional Billings	252	181	390	122
Oil and Gas Property Taxes	89,770	58,782	127,148	39,614
Penalties	13,055	8,495	18,369	5,814
Adjusted to Sheriff's Receipt	<u>(566)</u>	<u>(221)</u>	<u>(490)</u>	<u>(117)</u>
Gross Chargeable to Sheriff	<u>953,316</u>	<u>543,896</u>	<u>1,163,164</u>	<u>429,235</u>
<u>Credits</u>				
Exonerations	19,996	9,795	20,617	17,178
Discounts	9,796	5,690	12,186	4,161
Delinquents:				
Real Estate	24,697	16,125	34,878	10,867
Tangible Personal Property	7,708	3,332	6,910	5,092
Franchise Taxes	<u>8,150</u>	<u>4,827</u>	<u>10,369</u>	
Total Credits	<u>70,347</u>	<u>39,769</u>	<u>84,960</u>	<u>37,298</u>
Taxes Collected	882,969	504,127	1,078,204	391,937
Less: Commissions *	<u>37,814</u>	<u>21,425</u>	<u>43,128</u>	<u>16,945</u>
Taxes Due	845,155	482,702	1,035,076	374,992
Taxes Paid	844,455	482,160	1,034,060	374,820
Refunds (Current and Prior Year)	<u>816</u>	<u>565</u>	<u>1,219</u>	<u>197</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ (116)</u>	<u>\$ (23)</u>	<u>\$ (203)</u>	<u>\$ (25)</u>

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES
For The Period August 1, 2007 Through June 30, 2008
(Continued)

* Commissions:

10% on \$ 10,000
4.25% on \$ 1,769,033
4% on \$ 1,078,204

** Special Taxing Districts:

Library District	\$	22
Health District		(23)
Extension District		(9)
Soil Conversation District		<u>(13)</u>

Due Districts or (Refunds Due Sheriff)	<u><u>(23)</u></u>
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MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Magoffin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Magoffin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2007 through June 30, 2008.

Note 4. Interest Income

The Magoffin County Sheriff earned \$493 as interest income on 2007 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Magoffin County Sheriff collected \$20,623 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Magoffin County Sheriff collected \$411 of advertising costs and \$2,075 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
Honorable Randall Jordan, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Magoffin County Sheriff's Settlement - 2007 Taxes for the period August 1, 2007 through June 30, 2008, and have issued our report thereon dated November 6, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Magoffin County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Magoffin County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Sheriff's Settlement - 2007 Taxes for the period August 1, 2007 through June 30, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Collect \$359 Of Receivables And Pay \$15,368 Of Liabilities For The 2003 And 2004 Tax Settlements

The Magoffin County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Magoffin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 6, 2008

COMMENTS AND RECOMMENDATIONS

MAGOFFIN COUNTY
RANDALL JORDAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period August 1, 2007 Through June 30, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Collect \$359 Of Receivables Due And Pay \$15,368 Of Liabilities Due For The 2003 And 2004 Tax Settlements

During follow-up of the 2003 and 2004 tax audits, we determined the Sheriff had not collected all receivables and paid all liabilities as recommended.

Based on the 2003 tax audit, receivables totaling \$326 are due the Sheriff from other taxing districts and liabilities totaling \$10,761 are due from the Sheriff. The liabilities include \$9,920 to the school district, \$817 to a taxpayer for a refund, and \$24 to the Sheriff's fee account. Based on the 2004 tax audit, receivables totaling \$33 are due the Sheriff from the State and liabilities totaling \$4,607 are still due from the Sheriff. The liabilities include amounts due to taxing districts and the fee account.

The Sheriff should have a surplus of approximately \$1,962 upon collection of receivables and payment of liabilities still outstanding from the 2003 and 2004 tax settlements. We recommend the Sheriff comply with prior year audit recommendations by collecting and paying outstanding items. We also recommend the surplus be held in an escrow account and that the Sheriff report the surplus to the Treasury Department as unclaimed moneys.

Sheriff's Response: We hope to have this cleared up in the near future and we will bill the districts for refunds due the Sheriff.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties over receipts and disbursements. The bookkeeper collects and deposits all tax receipts, records all tax transactions, prepares the monthly tax reports, and reconciles the bank account. Good internal controls dictate that the same employee should not be performing all of these functions. We recommend the following compensating controls be implemented to offset the lack of adequate segregation of duties:

- The Sheriff should periodically compare the daily deposit to the daily checkout sheet and the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically compare the monthly reports to the receipts and disbursements ledger for accuracy. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the monthly reports and ledgers.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This should be documented by the Sheriff initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: Due to the lack of funds I am unable to hire additional staff to segregate the duties, therefore, I will do periodic checks of the financial statements.

